
ELECTRIC GENERAL RATE APPLICATION 2015**Manitoba Hydro Undertaking #46**

Manitoba Hydro to make best efforts to advise if Manitoba Hydro had a position on the Board's 3 percent discount rate in the NFAT final report.

Response:

The 3% discount in question relates to page 225 of the PUB's report on the Needs for and Alternatives to (NFAT), where reference was made to how "Morrison Park estimated the Net Present Value of future payments to the Province for different plans based on 2013 planning assumptions. The estimates were provided at a 6% discount rate, a 3% discount rate (which approximates the provincial government's own cost of borrowing), and in nominal dollars".

The \$6.1 billion present value being referred to is from a calculation provided during the NFAT process by Morrison Park Advisors Inc. on page 28 of their Exhibit MPA 3-1. A table is produced showing the present value to the province of water rentals and capital tax at different discount rates. The \$6.1 billion represents the present value for Plan 5 (Keeyask and the 750MW interconnection) at a 3% discount rate. There is no indication as to whether the 3% is a real or nominal discount rate; however, on page 68 of Exhibit MPA 3, there is a specific reference to MPA's recommendations for discount rates exclusively in nominal terms, suggesting that all other discount rate references are also in nominal terms.

Manitoba Hydro's current forecast, provided as MH Exhibit 58, projects a long term cost of borrowing for Manitoba Hydro of 6.35%. This would infer a projected long term cost of borrowing for the province of 5.35%, without the 1.0% Provincial Guarantee Fee. This is significantly higher than the 3% assumed-nominal rate from the reference.